

1998 Part-Year Resident Personal Income Tax

**Arizona Form
140PY**

Are You Subject to Tax in Arizona?

As a part-year resident, you are subject to tax on all of the following.

1. Any income you earned in 1998 while an Arizona resident. This includes any interest or dividends received from sources outside Arizona.
2. Any income you earned from an Arizona source in 1998 before moving to (or after leaving) the state.

NOTE: If you also have Arizona source income and deductions for the portion of the year you were an Arizona nonresident, file Arizona Form 140PY for the entire taxable year.

Do You Have to File?

Arizona Filing Requirements These rules apply to all Arizona taxpayers.		
You must file if you are:	and your gross income is at least:	or your Arizona adjusted gross income is at least:
• Single	\$15,000	\$5,500
• Married filing jointly	\$15,000	\$11,000
• Married filing separately	\$15,000	\$5,500
• Unmarried head of household	\$15,000	\$5,500
If you are a part-year resident, you must report all income for the part of the year you were an Arizona resident, plus any income from Arizona sources for the part of the year you were an Arizona nonresident.		
To see if you have to file, figure your gross income the same as you would figure your gross income for federal income tax purposes. Then you should exclude income Arizona law does not tax.		
You can find your Arizona adjusted gross income on line 22 of Arizona Form 140PY.		

NOTE: You must file a state return even if your employer withheld all or part of the tax. Even if you do not have to file, you must still file a return to get a refund of any Arizona income tax withheld.

Do You Have to File if You Are an American Indian?

You must file if you meet the Arizona filing requirements unless **all** the following apply to you.

- You are an enrolled member of an Indian tribe.
- You live on the reservation established for that tribe.
- You earned all of your income on that reservation.

To find out more, see Arizona Department of Revenue

Income Tax Ruling ITR 96-4.

Do You Have to File if You Are a Non-Indian or Non-Enrolled Indian Married to an American Indian?

You must file if you meet the Arizona filing requirements. For details on how to figure what income to report, see Arizona Department of Revenue Income Tax Ruling ITR 96-4.

Do You Have to File if You Are in The Military?

You must file if you meet the Arizona filing requirements.

If you are an Arizona resident, you must report all of your income, no matter where stationed. You must include your military pay. If you were an Arizona resident when you entered the service, you remain an Arizona resident until you establish a new domicile.

If you are not an Arizona resident, but stationed in Arizona, the following applies to you.

- You are not subject to Arizona income tax on your military pay.
- You must report any other income you earn in Arizona. Use Form 140NR, *Nonresident Personal Income Tax Return*, to report this income.

To find out more, see Arizona Department of Revenue brochure, Pub 704, *Taxpayers in the Military*.

If You Included Your Child's Unearned Income on Your Federal Return, Does Your Child Have to File an Arizona Return?

In this case, the child should not file an Arizona return. The parent must include that same income in his or her Arizona taxable income.

RESIDENCY STATUS

If you are not sure if you are an Arizona resident for state income tax purposes, you should get Arizona Department of Revenue Income Tax Procedure ITP 92-1.

Residents

You are a resident of Arizona if your domicile is in Arizona. Domicile is the place where you have your permanent home. It is where you intend to return if you are living or working temporarily in another state or country. If you leave Arizona for a temporary period, you are still an Arizona resident while gone. A resident is subject to tax on all income no matter where the resident earns the income.

If you are a full year resident, you must file Form 140, Form 140A, or Form 140EZ.

Part-Year Residents

If you are a part-year resident, you must file Form 140PY, *Part-Year Resident Personal Income Tax Return*.

You are a part-year resident if you did either of the following during 1998.

- You moved into Arizona with the intent of becoming a resident.
- You moved out of Arizona with the intent of giving up your Arizona residency.

Nonresidents

If you are a nonresident, you must file Form 140NR, *Nonresident Personal Income Tax Return*.

What if a Taxpayer Died?

If a taxpayer died before filing a return for 1998, the taxpayer's spouse or personal representative may have to file and sign a return for that taxpayer. If the deceased taxpayer did not have to file a return but had tax withheld, a return must be filed to get a refund.

The person who files the return should use the form the taxpayer would have used. **If the department mailed the taxpayer a booklet, do not use the label.** The person who files the return should print the word "deceased" after the decedent's name in the address section of the form. Also enter the date of death after the decedent's name.

If your spouse died in 1998 and you did not remarry in 1998, or if your spouse died in 1999 before filing a return for 1998, you may file a joint return. If your spouse died in 1998, the joint return should show your spouse's 1998 income before death, and your income for all of 1998. If your spouse died in 1999, before filing the 1998 return, the joint return should show all of your income and all of your spouse's income for 1998. Print "Filing as surviving spouse" in the area where you sign the return. If someone else is the personal representative, he or she must also sign the return.

Are Any Other Returns Required?

You may also have to file fiduciary income tax or estate tax returns. For details, call the department at (602) 542-4022.

Claiming a Refund For a Deceased Taxpayer

If you are claiming a refund, you **must** complete Form 131, *Claim for Refund on Behalf of Deceased Taxpayer*. Attach this form to the **front** of the return.

What Are the Filing Dates and Penalties?

When Should You File?

Your 1998 calendar year tax return is due no later than midnight, April 15, 1999. File your return as soon as you can after January 1, but no later than April 15, 1999.

If you are a fiscal year filer, your return is due on the 15th day of the fourth month following the close of your fiscal year.

What If You Cannot File On Time?

You may request an extension if you know you will not be able to file on time.

NOTE: *An extension does not extend the time to pay your income tax. For details, see the instructions for Arizona Form 204.*

To get a filing extension, you can either:

1. Apply for a state extension (Form 204). To apply for a state extension, file Arizona Form 204 by April 15. See Form 204 for details.
2. You may use your federal extension (federal Form 4868 or 2688). File your Arizona return by the same due date. You must attach a copy of the federal extension to the front of your return. If you use federal Form 2688, the IRS must have approved the extension. If you must make a payment, use Arizona Form 204 instead.

Attach a copy of your extension to the front of your return when you file.

When Should You File if You Are a Nonresident Alien?

You must file your Arizona tax return by April 15, even though your federal income tax return is due on June 15. If you want to file your Arizona return when you file your federal return, you may ask for an extension. See Form 204 for extension filing details.

If you are a fiscal year filer, your return is due on the 15th day of the fourth month following the close of your fiscal year.

What if You File or Pay Late?

If you file or pay late, the department can charge you interest and penalties on the amount you owe. If the U.S. Post Office postmarks your 1998 calendar return by April 15, 1999, your return will not be late.

Late Filing Penalty

If you file late, the department can charge you a late filing penalty. This penalty is 5 percent of the tax found to be remaining due for each month or fraction of a month the return is late. This penalty cannot exceed 25 percent of the tax found to be remaining due.

Late Payment Penalty

If you pay your tax late, the department can charge you a late payment penalty. This penalty is 10 percent of the tax not paid on time.

Extension Underpayment Penalty

If you file your return under an extension, you must pay 90 percent of the tax shown on your return by the return's original due date. If you do not pay this amount, the department can charge you a penalty. The department can also charge you this penalty if you do not attach the extension to your return when you file. This penalty is one-half of one percent (.005) of the tax not paid for each 30 day

period or fraction of a 30 day period. The department charges this penalty from the original due date of the return until the date you pay the tax. This penalty cannot exceed 25 percent of the unpaid tax.

NOTE: *If you are subject to two or more of the above penalties, the total cannot exceed 25 percent.*

Interest

The department charges interest on any tax not paid by the due date. The department will charge you interest even if you have an extension. If you have an extension, the department will charge you interest from the original due date until the date you pay the tax. The Arizona rate of interest is the same as the federal rate.

When Should You Amend a Return?

If you need to make changes to your return once you have filed, you should file Form 140X, *Individual Amended Return*. **Do not** file a new return for the year you are correcting. Generally, you have four years to amend a return to claim a refund.

If the Internal Revenue Service makes a change to your federal taxable income for any year, you must file a Form 140X for that year. In this case, you must amend your Arizona return within 90 days of the change. Attach a complete copy of the federal notice to your Form 140X.

If you amend your federal return for any year, you must file a Form 140X for that year. You must file the form 140X within 90 days of amending your federal return.

Do You Need to Make Estimated Payments in 1999?

You must make Arizona estimated income tax payments during 1999 if either of the following apply.

1. You reasonably expect your Arizona gross income will exceed \$75,000 in 1999.
2. Your Arizona gross income in 1998 was greater than \$75,000.

As a part-year resident, your Arizona gross income is that part of your federal adjusted gross income that you must report to Arizona.

Make sure you use ordinary business care and prudence when you project your income for 1999.

NOTE: *Arizona's community property laws may have an effect on whether you have to make estimated payments. For details, see Arizona Department of Revenue Income Tax Ruling ITR 92-1.*

What if You Make Your Estimated Payments Late?

The department will charge you a penalty if you fail to make any required payments. The department will charge you a penalty if you make any of your required payments late. The department will also charge you interest on any late or underpaid estimated tax payment.

For details, see Arizona Form 221.

Can You Make Estimated Payments if You do Not Have to?

If you do not have to make Arizona estimated income tax payments, you may still choose to make them.

For details, see Arizona Forms 140ES and 221.

Line-by-Line Instructions

Tips for Preparing Your Return:

- Complete your return using black ink.
- You must round dollar amounts to the nearest whole dollar. If 50 cents or more, round up to the next dollar. If less than 50 cents, round down.
- When asked to provide your own schedule, attach a separate sheet with your name and social security number at the top. Attach your own schedules to the back of your return.
- You must complete your federal return before you can start your Arizona return.
- Make sure you include your home telephone number. If your daytime number is not the same as your home number, make sure you include a daytime number.
- If filing a fiscal year return, fill in the period covered in the space provided at the top of the form.

Entering Your Name, Address, and Social Security Number

Lines 1, 2, and 3 -

If your booklet has a peel-off label, use that label if all the information is correct. **If any of the information on the label is incorrect, do not use the label.** Attach the label after you finish your return. If you do not have a peel-off label, print or type your name, address, and SSN in the space provided. If you are a nonresident of the United States or a resident alien who does not have an SSN use the identification number (ITIN) the IRS issued to you.

If you are filing a joint return, enter your SSNs in the same order as your first names. *If your name appears first on the return, make sure your SSN is the first number listed.* If you and your spouse have different last names, write the word "and" between your last names. Put your last names in the same order as your first names and SSNs. In this case, the department will issue any refund under the last name listed first on the return.

For a deceased taxpayer, see page 2 of these instructions.

Use your current home address. The department will send your refund or correspond with you at that address.

NOTE: *Make sure your SSN is correct. If you are filing a joint return, also make sure you list your SSNs in the same order every year.*

Make sure that every return, statement, or document that you file with the department has your SSN. Make sure that all SSNs are clear and correct. You may be subject to a penalty if you fail to include your SSN. It may take longer to process your return if SSNs are missing, incorrect, or unclear.

Identification Numbers for Paid Preparers

If you pay someone else to prepare your return, that person must also include an identification number where requested.

A paid preparer may use either of the following.

- his or her SSN
- the federal employer identification number for the business

A paid preparer who fails to include the proper numbers may also be subject to a penalty.

Determining Your Filing Status

The filing status that you use on your Arizona return may be different from that used on your federal return.

Use this section to determine your filing status. Check the correct box (4 through 7) on the front of Form 140PY.

Line 4 Box - Married Filing a Joint Return

You may use this filing status if married as of December 31, 1998. It does not matter whether or not you were living with your spouse. You may elect to file a joint return, even if you and your spouse filed separate federal returns.

You may use this filing status if your spouse died during 1998 and you did not remarry in 1998. See page 2 of these instructions for details.

If you are a part-year resident married to an Arizona full year resident, you may file a joint return using the 140PY. For more information, see Arizona Department of Revenue Income Tax Ruling ITR 95-2.

Line 5 Box - Head of Household

NOTE: *Changes made to Arizona law during 1998 may affect your ability to file as head of household.*

You may now file as head of household on your Arizona return, only if one of the following applies.

- You qualify to file as head of household on your federal return.
- You qualify to file as a qualifying widow or widower on your federal return.

Line 6 Box - Married Filing Separately

You may use this filing status if married as of December 31, 1998, and you elect to file a separate Arizona return. You may elect to file a separate return, even if you and your spouse filed a joint federal return.

If you are filing a separate return, check the line 6 box and enter your spouse's name in the space provided. Also enter

your spouse's SSN in the space provided on line 2.

If you are filing a separate return and your spouse is an Arizona resident, you must figure how much income to report using community property laws. Under these laws, a separate return must reflect one-half of the community income taxable to Arizona plus any separate income taxable to Arizona. For details, see Arizona Department of Revenue Income Tax Ruling, ITR 93-20.

NOTE: *If you can treat community income as separate income on your federal return, you may also treat that community income as separate on your Arizona return. See Arizona Department of Revenue Ruling ITR 93-22.*

Line 7 Box - Single

Use this filing status if you were single on December 31, 1998. You are single if any of the following apply to you.

- You have never been married.
- You are legally separated under a decree of divorce or of separate maintenance.
- You were widowed before January 1, 1998, and you did not remarry in 1998, and you do not qualify to file as a qualifying widow or widower with dependent children on your federal return.

Exemptions

Write the number of exemptions you are claiming in boxes 8, 9, and 10. Do not put a checkmark. You may lose the exemption if you put a checkmark in these boxes. You may lose the dependent exemption if you do not complete Part A on page 2.

Line 8 Box - Age 65 or Over

Write "1" in box 8 if you or your spouse were 65 or older in 1998. Write "2" in box 8 if both you and your spouse were 65 or older in 1998.

Line 9 Box - Blind

Write "1" in box 9 if you or your spouse are totally or legally blind. Write "2" in box 9 if both you and your spouse are totally or legally blind. To qualify as legally blind, you must attach a physician's letter stating one of the following.

1. Your vision is 20/200 or poorer with corrective lenses.
2. Your field of vision is 20 degrees or less.

Line 10 Box - Dependents

You must complete Part A on page 2 of your return before you can total your dependent exemptions.

NOTE: *Changes made to Arizona law during 1998 may affect who you may claim as a dependent.*

You may now claim only the following as a dependent.

- A person that qualifies as your dependent on your federal return.
- A person who is age 65 or over (related to you or not)

that does not qualify as your dependent on your federal return, but one of the following applies.

1. In 1998, you paid more than one-fourth of the cost of keeping this person in an Arizona nursing or licensed supervisory care home. Your cost must be more than \$800.
2. In 1998, you paid more than \$800 for either Arizona home health care or other medical costs for the person.

Completing Line(s) A1

Enter the following on line(s) A1.

1. The dependent's name.
2. The dependent's social security number.
3. The dependent's relationship to you.
4. The number of months the dependent lived in your home during 1998.

You may lose the exemption if you do not furnish this information.

Line A2 - Total Dependents

Enter the total number of persons listed on line(s) A1. Enter the same number onto the front of the return in box 10.

Line A3 - Persons You Cannot Take as Dependents on Your Federal Return

Enter the names of any dependents age 65 or over listed on line(s) A1 that you cannot take as a dependent on your federal return.

Reporting Your Residency Status

Check the appropriate box.

Line 11 Box - Part-Year Resident Other Than Active Duty Military

Check box 11 if you were an Arizona resident for part of 1998, and were not an active duty military member.

Line 12 Box - Part-Year Resident Active Military

Check box 12 if you were an active duty military member who either began or gave up Arizona residency during 1998.

Determining Arizona Income

Now complete Parts B, C, and D on page 2 of the return.

Use Part B to determine what portion of your total income is taxable by Arizona.

NOTE: If you are unable to determine the proper line to use, please contact one of the help numbers listed on the quick and easy access to tax help and forms page.

FEDERAL Column

Enter the actual amounts shown on your 1998 federal income tax return in the FEDERAL column. Complete lines B5 through B18. Line B18 should equal the federal adjusted gross income shown on your 1998 federal return Form 1040, Form 1040A, or Form 1040EZ.

ARIZONA Column

Enter that portion of your federal income received while you were an Arizona resident in the Arizona column. For example, if you became an Arizona resident on June 30, enter all income you received from that day to December 31, 1998.

NOTE: If you also have Arizona source income for the portion of the taxable year you were an Arizona nonresident, also include that source income on the appropriate line in the Arizona column.

The Tax Reform Act of 1986 limits the amount of losses that you may deduct from passive activities. A passive activity is one that involves the conduct of any trade or business in which the taxpayer does not materially participate.

As a part-year resident, your Arizona gross income may include some of these losses. For the part of the year you were an Arizona resident, you may consider any passive losses that arose while an Arizona resident. For the part of the year you were an Arizona nonresident, you may consider only those passive losses that arose from Arizona sources. Your 1998 Arizona gross income can include only losses you used on your 1998 federal return.

The following line-by-line instructions apply to the ARIZONA column.

Line B4 - Dates of Arizona Residency

If you became an Arizona resident during 1998, enter the date that you became an Arizona resident. If you gave up your Arizona residency during 1998, do both of the following.

1. Enter the date you became an Arizona resident.
2. Enter the date you gave up your Arizona residency.

Line B5 - Wages, Salaries, Tips, etc.

Enter all amounts received while an Arizona resident.

Also enter all amounts received from Arizona employment during the part of the year you were an Arizona nonresident.

NOTE: Do not include active duty military pay for the part of the year you were a nonresident.

Line B6 - Interest

Enter all amounts received while an Arizona resident.

You must also enter any interest income derived from Arizona sources during the part of the year you were an Arizona nonresident. Interest income from Arizona sources is interest income that has acquired an Arizona business situs.

If you received tax exempt interest from municipal bonds, attach a schedule listing the payors and the amount received from each payor. You may also want to attach supporting documents for amounts received from Arizona municipal bonds that are exempt from Arizona income tax. These may be items such as bank statements, brokerage statements, etc. Be sure you add the amount you received while an Arizona resident from non-Arizona municipal bonds to your income on line C22.

Line B7 - Dividends

Enter all amounts received while an Arizona resident.

You must also enter any dividends derived from Arizona sources during the part of the year you were an Arizona nonresident. Dividend income from Arizona sources is dividend income that has acquired an Arizona business situs.

Line B8 - Arizona Income Tax Refunds

Enter the amount of Arizona income tax refunds received in 1998 that you included in your federal adjusted gross income.

Line B9 - Alimony Received

Enter amounts received while an Arizona resident.

Line B10 - Business Income or (Loss)

Enter any business or farm income or (loss) incurred while you were an Arizona resident.

Also enter income or (loss) derived from Arizona businesses during the part of the year you were an Arizona nonresident.

Line B11 - Gains or (Losses)

Enter any gain or (loss) on property sold while an Arizona resident if you included the amount as income on your 1998 federal return.

Also enter gains or (losses) on sales of Arizona property during the part of the year you were an Arizona nonresident.

Line B12 - Rents, etc.

Enter income received from rents, royalties, partnerships, estates, trusts, small business corporations, etc., while an Arizona resident.

Also enter rent or royalty earned on Arizona properties during the part of the year you were an Arizona nonresident. Enter any income or (loss) derived from Arizona sources from partnerships, small business

corporations, etc., during the part of the year you were an Arizona nonresident.

Line B13 - Other Income Reported on Your Federal Return

Enter other income, shown on your federal return that you received while an Arizona resident. Other income may include pensions, social security, unemployment, and lottery winnings. Attach a schedule listing these other items.

Also enter any other income derived from Arizona sources during the part of the year you were an Arizona nonresident.

Line B14 - Total Income

Add lines B5 through B13 and enter the total.

Line B15 - Total IRA Deduction

Enter amount actually paid while an Arizona resident for your IRA and/or your spouse's IRA.

Line B16 - Other Federal Adjustments

If your federal return shows adjustments to income, attach your own schedule to show your calculation. If any of the following are included in adjustments shown on your federal return, make an entry on this line as explained below.

1. Keogh Retirement Plan and self-employed SEP deduction: Enter amount actually paid while an Arizona resident.
2. Penalty on early withdrawal of savings: Multiply the federal deduction by the ratio of your Arizona interest to your federal interest.
3. Alimony actually paid while an Arizona resident.
4. Moving expenses: Enter the amount of moving expenses included in your federal adjusted gross income that you accrued and paid during the part of the year you were an Arizona resident.

Line B17 - Total Adjustments

Add lines B15 and B16 and enter the total.

Line B19 - Arizona Income

Complete line B19 as instructed on the form.

Line B20 - Arizona Percentage

Divide line B19 by line B18, and enter the result on line B20. (**Do not enter more than 100 percent.**) This is the Arizona percentage of your total income.

Example:

Arizona Gross Income from line B19	Federal Adjusted Gross Income from line B18	Arizona percentage
\$ 7,500	\$ 30,000	$\$7,500/\$30,000= 25\%$

Determining Additions to Income

Line C21- Early Withdrawal of Arizona, County, City, or School Retirement System Contributions

If you meet all the following, you must enter an amount here.

1. You left your job with the State of Arizona or an Arizona county, city, or school district for reasons other than retirement.
2. When you left, you took out the contributions you had made to the retirement system while employed.
3. You deducted these contributions on your Arizona income tax returns that you filed for prior years.
4. You did not include these contributions in your federal adjusted gross income this year.

If you meet all these tests, you must report as income those contributions previously deducted on your prior years' Arizona tax returns.

For more information, see Arizona Department of Revenue Income Tax Ruling ITR 93-7.

NOTE: Any interest earned on your retirement contributions while they were in the system should be reported on line B6 in both the FEDERAL and ARIZONA income columns.

Line C22 - Other Additions to Income

Use line C22 if any of the special circumstances below applies. Attach your own schedule to the back of your return, explaining any amounts entered on line C22.

Items A, B, and C that follow must be added to income on line C22 of your return.

A. Non-Arizona Municipal Interest

Enter interest income earned from non-Arizona municipal bonds while an Arizona resident.

NOTE: You may reduce this addition by any interest or other related expenses incurred to purchase or carry the obligation. As a part-year resident, you may reduce the addition by the amount of those expenses attributable to income subject to Arizona tax. You may reduce the addition by those expenses that you could not deduct on your federal return.

B. Ordinary Income Portion of Lump Sum

Distribution Excluded on Your Federal Return

Arizona law does not provide for 5 or 10 year averaging. Enter the amount of the distributions received while an Arizona resident and treated as ordinary income on your federal return. If you chose to treat the capital gain portion of the distributions as ordinary income, you must also include that amount on line C22.

For more information, see Arizona Department of Revenue Income Tax Ruling, ITR 93-5.

C. Trust or Estate Deductions

You must add the following estate or trust deductions to your Arizona gross income.

1. Your share of the estate's or trust's deductions allowed under the Internal Revenue Code.
2. Your share of the excess deductions and loss carryovers allowed under the Internal Revenue Code as deductions to the beneficiary on termination of an estate or trust.

You must add the above deductions and loss carryovers to Arizona gross income only to the extent you included these items in computing your Arizona taxable income.

D. Pension Adjustments

Depending on your situation, you may either add (line C22) or subtract (line D34) this amount.

Use this adjustment if both of the following apply.

1. Arizona taxed your pension for years before 1979.
2. You reported that pension on your federal return using the percentage exclusion method.

Do not use this adjustment if either of the following apply.

1. You reported your pension income as fully taxable on your federal return.
2. You reported your pension income on your federal return under the "three-year-rule".

Follow the worksheet below to figure the adjustment.

Pension Adjustment Worksheet	
Follow these steps to figure the adjustment: Worksheet (Keep for your records.)	
1. Your contribution to annuity.	1.
2. Pension amount received in prior years.	2.
3. Remainder of cost (line 1 minus line 2 but not less than zero).	3.
4. Pension amount received this year.	4.
5. Amount from line 3.	5.
6. Subtract line 5 from line 4 (but not less than zero).	6.
7. Enter the pension amount taxable on your federal return.	7.
8. Subtract line 7 from line 6.	8.

If line 8 is more than zero, enter the amount on line 8 as an addition to income. Enter the addition on line C22.

If line 7 is more than line 6, enter the difference as a subtraction from income. Enter the subtraction on line D34.

E. Partnership Income

Depending on your situation, you may either add (line C22) or subtract (line D34) this amount.

Use this adjustment if your Arizona Form 165 Schedule K-1 shows a difference between federal and state distributable income.

If the difference reported on your Arizona Form 165, Schedule K-1, is a positive number, enter that portion of the difference that is allocable to partnership income taxable by Arizona as an addition. Enter the addition on line C22.

If the difference reported on your Arizona Form 165, Schedule K-1, is a negative number, enter that portion of the difference that is allocable to partnership income taxable by Arizona as a subtraction. Enter the subtraction on line D34.

F. Net Operating Losses

Arizona does not have specific Arizona net operating loss provisions for individual taxpayers. Arizona conforms to the federal net operating loss provisions, including the carryback provisions.

As a part-year resident, Arizona recognizes that portion of the federal net operating loss which is attributable to income taxed by Arizona as the Arizona net operating loss.

As a part-year Arizona resident, include in Arizona gross income the amount of federal net operating loss carryforward or carryback attributable to Arizona unless any of the following apply.

1. The net operating loss attributable to Arizona included in your federal adjusted gross income has already been deducted for Arizona purposes.
2. The net operating loss included in your federal adjusted gross income was incurred from non-Arizona sources while a nonresident.
3. You took a separate subtraction for the net operating loss included in your federal adjusted gross income on an amended return filed for a prior tax year under the special net operating loss transition rule.

For information on deducting a net operating loss carryback, see Arizona Department of Revenue Income Tax Procedure ITP 97-2.

G. Agricultural Water Conservation Expenses

If you take this credit, you cannot deduct any expenses for which you claim the credit. If you take this credit, enter the amount of such expenses that you deducted on your federal return.

H. Items Previously Deducted for Arizona

Purposes

Arizona statutes prohibit a taxpayer from deducting items more than once. However, under the operation of former Arizona law (1989 and prior), you could deduct certain items in greater amounts for Arizona purposes than federal purposes. Investment interest and passive activity losses were such items. In some cases, you could have deducted such amounts in their entirety on the Arizona return. For federal purposes, the deduction for these items was limited, with the unused portions being carried forward and deducted in future years. Your Arizona return may include these previously deducted items because of the difference between the federal and former Arizona treatment. If your Arizona taxable income includes items previously deducted for Arizona purposes, you must add such amounts to your Arizona gross income.

I. Claim of Right Adjustment for Amounts Repaid in 1998

You must make an entry here if all of the following apply.

1. During 1998, you were required to repay amounts held under a claim of right.
2. The amount required to be repaid was subject to Arizona income tax in the year included in income.
3. The amount required to be repaid during 1998 was more than \$3,000.
4. You took a deduction for the amount repaid on your 1998 federal income tax return.
5. The deduction taken on your federal income tax return is reflected in your Arizona taxable income.

If the above apply, enter the amount deducted on your federal income tax return which is reflected in your Arizona taxable income.

For more information on the Arizona claim of right provisions, see Arizona Department of Revenue Individual Income Tax Procedure ITP 95-1.

J. Claim of Right Adjustment for Amounts Repaid in Prior Taxable Years

You must make an entry here if all of the following apply.

1. During a year prior to 1998 you were required to repay income held under a claim of right.
2. You computed your tax for that prior year under Arizona's claim of right provisions.
3. A net operating loss or capital loss was established due to the repayment made in the prior year.
4. You are entitled to take that net operating loss or capital loss carryover into account when computing your 1998 Arizona taxable income.
5. The amount of the loss carryover included in your Arizona gross income is more than the amount allowed to be taken into account for Arizona purposes.

Enter the amount by which the loss carryover included in

your Arizona gross income is more than the amount allowed for the taxable year under Arizona law.

K. Addition to S Corporation Income Due to Credits Claimed

Shareholders of an S corporation who claim a credit passed through from an S corporation must make an addition to income for the amount of expenses disallowed by reason of claiming the credit.

An S corporation that passes the following credits through to its shareholders must notify each shareholder of his or her pro rata share of the adjustment. You must enter an amount on this line when claiming any of the following credits.

- Agricultural water conservation credit
- Defense contracting credit
- Environmental technology facility credit
- Pollution control credit
- Recycling equipment credit
- Credit for solar hot water heater plumbing stub outs and electric vehicle recharge outlets
- Credit for employment of TANF recipients

L. Solar Hot Water Heating Plumbing Stub Out And Electric Vehicle Recharge Outlet Expenses

If you take a credit for installing solar hot water heating plumbing stub outs or electric vehicle recharge outlets in a dwelling you constructed, you cannot deduct any expenses for which you claim the credit. If you take this credit, enter the amount of such expenses that you deducted on your federal return.

M. Wage Expense for Employers of TANF Recipients

If you take a credit for employing TANF recipients, you cannot deduct any wage expense for which you claim the credit. If you take this credit, enter the amount of such expenses that you deducted on your federal return.

N. Other Adjustments

Other special adjustments may be necessary. You may need to make an addition for depreciation or amortization. You may also need to make an addition if you claimed certain tax credits. Call one of the numbers listed on the quick and easy access to tax help and forms page if any of the following apply.

- You are a qualified defense contractor that elected to amortize under Arizona Revised Statutes section 43-1024.
- You sold or disposed of property that was held for the production of income and your basis was computed under the Arizona Income Tax Act of 1954.
- You are still depreciating or amortizing a child care facility for which you claimed a state credit.
- You claimed the environmental technology facility credit.

- You claimed the pollution control credit.
- You claimed the recycling equipment credit.
- You elected to amortize the basis of a pollution control device or the cost of a child care facility under Arizona law in effect before 1990. You are still deducting amortization or depreciation for that device or facility on your federal income tax return.

Line C23 - Total Additions

Add lines C21 and C22. Enter the total on line C23 and on the front of your return on line 15.

Determining Subtractions From Income

You may only subtract those items for which statutory authority exists. Without such authority you cannot take a subtraction. If you have any questions concerning subtractions from income, call one of the help numbers listed on the quick and easy access to tax help and forms page.

NOTE: *You may not subtract any amount which is allocable to income excluded from your Arizona taxable income.*

Line D24 - Exemption: Age 65 or Over

Multiply the number in box 8 on the front of your return by \$2,100 and enter the result.

Line D25 - Exemption: Blind

Multiply the number in box 9 on the front of your return by \$1,500 and enter the result.

Line D26 - Exemption: Dependents

Multiply the number in box 10 on the front of your return by \$2,300 and enter the result.

Line D27 - Total

Add lines D24 through D26 and enter the total.

Line D28 - Prorated Exemptions

Multiply the amount on line D27 by the Arizona percentage from line B20 and enter the result.

Active Duty Military Personnel Only: *If you were an active duty military member who either began or gave up Arizona residency during 1998, do not prorate these exemptions. You are allowed 100 percent deductions for the age 65, the blind, and the dependents exemptions. Enter the amount on line D27 (Total) on this line.*

Line D29 - Interest on U.S. Obligations

Enter the amount of interest income from U.S. Government obligations included on line B6 in the ARIZONA column. U.S. Government obligations include obligations such as U.S. savings bonds and treasury bills. You cannot deduct any interest or other related expenses incurred to purchase or carry the obligations. If such expenses are included in your Arizona gross income, you must reduce the subtraction

by such expenses. If you are itemizing deductions on your Arizona return, you must exclude such expenses from the amount deducted.

NOTE: Do not subtract interest earned on FNMA or GNMA bonds since this interest is taxable by Arizona. For more information, see the department's Guidelines for Exempt Securities.

Do not subtract any amount received from a qualified pension plan that invests in U.S. Government obligations. Do not subtract any amount received from an IRA that invests in U.S. Government obligations. These amounts are not interest income. For more information, see Arizona Department of Revenue Income Tax Rulings ITR 96-2 and ITR 96-3.

Line D30 - Arizona Lottery Winnings

You may subtract all winnings received in 1998 related to an Arizona lottery prize won before March 22, 1983. You may subtract up to \$5,000 of winnings received in 1998 for Arizona lottery prizes won after March 21, 1983. Only subtract those Arizona lottery winnings that you included on line B13 in the ARIZONA column and reported on your federal income tax return.

If you subtract Arizona lottery winnings here, you may have to adjust the amount of gambling losses claimed as an itemized deduction.

Line D31 - Social Security Benefits or Railroad Retirement Benefits

Arizona does not tax social security benefits received under Title II of the Social Security Act. Arizona does not tax railroad retirement benefits received from the Railroad Retirement Board under the Railroad Retirement Act. If you included such social security or railroad retirement benefits on your federal return as income and also included this amount in the Arizona column on line B13, subtract this income on line D31.

Subtract only the amount you reported as income on your federal return and included on line B13 in the Arizona column.

See Arizona Department of Revenue Income Tax Ruling ITR 96-1 for more information about railroad retirement benefits.

Line D32 - Agricultural Crops Given to Arizona Charitable Organizations

Arizona law allows a subtraction for qualified crop gifts made during 1998 to one or more charitable organizations. To take this subtraction, you must be engaged in the business of farming or processing agricultural crops. The crop must be grown in Arizona. You must make your gift to a charitable organization located in Arizona which is exempt from Arizona tax.

The subtraction is the greater of 80 percent of the wholesale market price or 80 percent of the most recent sale price for the given crop.

To determine if your crop contribution qualifies for this subtraction, see Arizona Department of Revenue Procedure ITP 93-2.

Line D33 - Alternative Fuel Vehicles and Refueling Equipment

Arizona law allows a subtraction for alternative fuel vehicles.

You may qualify to take this subtraction if you did any of the following.

1. Purchased or leased a new alternative fuel vehicle for use in Arizona.
2. Converted a conventional fuel vehicle to an alternative fuel vehicle for use in Arizona.
3. Installed alternative fuel vehicle refueling equipment on your property in Arizona.

You may also subtract some personal interest if your purchase or conversion was for your private non-commercial use. The total subtraction is the sum of the amounts allowed to be subtracted for each item.

To figure your subtraction complete Form 313. Enter the amount from Form 313, Part I, line 32 here.

Line D34 - Other Subtractions

Use line D34 if any of the following special circumstances apply. Attach your own schedule to the back of your return, explaining any amounts entered here.

A. Exclusion for U.S. Government, Arizona State, or Local Government Pensions

If you receive pension income from any of the sources listed below, subtract the amount you received or \$2,500, whichever is less. Include only the amount you reported as income on your federal return and included on line B13 in the ARIZONA column. If both you and your spouse receive such pension income, each spouse may subtract the amount received or \$2,500, whichever is less.

Public pensions from the following sources qualify for this subtraction:

- The United States Government Service Retirement and Disability Fund
- The United States Foreign Service Retirement and Disability System
- Retired or retainer pay of the uniformed services of the United States
- Any other retirement system or plan established by federal law

NOTE: This applies only to those retirement plans authorized and enacted into the U.S. Code. This does not apply to a retirement plan that is only regulated by federal law (i.e., plans which must meet certain federal criteria to be qualified plans).

- The Arizona State Retirement System
- The Arizona State Retirement Plan
- The Corrections Officer Retirement Plan

- The Public Safety Personnel Retirement System
- The Elected Officials' Retirement Plan
- A retirement plan established for employees of a county, city, or town in Arizona
- An optional retirement program established by the Arizona Board of Regents under Arizona Revised Statutes
- An optional retirement plan established by an Arizona community college district.

NOTE: *Public retirement pensions from states other than Arizona do not qualify for this subtraction.*

B. Previously Reported Gain on Decedent's Installment Sale

Prior Arizona law required acceleration of any unrecognized installment sale gain upon the death of a taxpayer. However, this acceleration could have been avoided by the posting of a bond. If acceleration was required, your federal adjusted gross income may include installment sale amounts already recognized on a decedent's final Arizona return. Deduct that portion of the gain included on line B11, ARIZONA column.

C. Certain Wages of American Indians

Enrolled members of American Indian tribes may subtract wages earned while living and working on their tribe's reservation. You can subtract only those amounts that you included on line B5, ARIZONA column. The federal government must recognize these tribes.

For more information, see Arizona Department of Revenue Income Tax Ruling, ITR 96-4.

D. Combat Pay

Members of the U.S. armed forces may subtract pay received for serving in a combat zone or an area given the treatment of a combat zone. Enter only that amount of pay reported on your 1998 federal return that you also included on line B5 in the ARIZONA column.

E. Federally Taxable Arizona Municipal Interest

Enter the amount of any interest income received on obligations of the State of Arizona, or any political subdivisions of Arizona, that you included in your Arizona gross income. Enter only that amount of Arizona municipal interest income that you included on line B6 in the ARIZONA column. Do not enter any Arizona municipal interest that is exempt from federal taxation and not included in your federal adjusted gross income.

F. Adoption Expenses

You may take this subtraction only in the year the final adoption order is granted.

Enter the lesser of the total of the following adoption expenses or \$3,000.

When figuring your subtraction, you may include expenses incurred in prior years.

The following expenses are qualified adoption expenses.

1. Nonreimbursed medical and hospital costs.
2. Adoption counseling.
3. Legal and agency fees.
4. Other nonrecurring costs of adoption.

If filing separately, you may take the entire subtraction, or you may divide the subtraction with your spouse. However, the total subtraction taken by both you and your spouse cannot exceed \$3,000.

G. Qualified Wood Stove, Wood Fireplace, or Gas Fired Fireplace

Arizona law provides a subtraction for the purchase of a qualified wood stove, qualified wood fireplace, or gas fired fireplace and non-optional equipment directly related to its operation. You may subtract up to \$500 for the purchase and installation of a qualified wood stove, qualified wood fireplace, or gas fired fireplace on your property located in Arizona. When you figure your subtraction, you may also include the purchase price and installation cost of any non-optional equipment directly related to its operation. When figuring your subtraction, do not include taxes, interest, or other finance charges in the purchase price and installation costs.

NOTE: *Starting with taxable years beginning from and after December 31, 1998, the subtraction for purchasing a qualified wood stove, qualified wood fireplace, or gas fired fireplace will no longer be available. The subtraction for converting an existing fireplace to a qualified fireplace will remain available.*

Arizona law also provides a subtraction for converting an existing fireplace to a qualified wood stove, qualified wood fireplace, or gas fired fireplace and non-optional equipment directly related to its operation. You may subtract up to \$500 of the costs incurred for converting an existing fireplace to a qualified wood stove, qualified wood fireplace, or gas fired fireplace on your property located in Arizona. When you figure your subtraction, do not include taxes, interest, or other finance charges.

A qualified wood stove or a qualified wood fireplace is a residential wood heater that was manufactured on or after July 1, 1990, or sold at retail on or after July 1, 1992. The residential wood heater must also meet the U.S. Environmental Protection Agency's July 1990 particulate emissions standards.

A qualified gas fired fireplace is any device that burns natural or liquefied petroleum gas as its fuel through a burner system that is permanently installed in the fireplace. The conversion of an existing wood burning fireplace to noncombustible gas logs that are permanently installed in the fireplace also qualifies as a gas fired fireplace.

H. Claim of Right Adjustment for Amounts Repaid in Prior Taxable Years.

You must make an entry here if all of the following apply.

1. During a year prior to 1998 you were required to repay income held under a claim of right.
2. The amount required to be repaid was subject to Arizona income tax in the year included in income.
3. You computed your tax for that prior year under Arizona's claim of right provisions.
4. A net operating loss or capital loss was established due to the repayment made in the prior year.
5. You are entitled to take that net operating loss or capital loss carryover into account when computing your 1998 Arizona taxable income.
6. The amount of the loss carryover allowed to be taken into account for Arizona purposes is more than the amount included in your Arizona gross income.

Enter the amount by which the loss carryover allowed for the taxable year under Arizona law is more than the amount included in your Arizona gross income.

I. Certain Expenses Not Allowed for Federal Purposes

You may subtract some expenses that you cannot deduct on your federal return when you claim certain federal tax credits. These federal tax credits are:

- the federal work opportunity credit
- the empowerment zone employment credit
- the credit for employer-paid social security taxes on employee cash tips
- the Indian employment credit

If you received any of the above federal tax credits for 1998, enter the portion of wages or salaries attributable to income subject to Arizona tax that you paid or incurred during the taxable year that is equal to the amount of those federal tax credits you received.

J. Qualified State Tuition Program Distributions

If you are a beneficiary of a qualified state tuition program, you may subtract some of the amount distributed from the program for qualified education expenses. Enter the amount of the distribution included in your federal adjusted gross income that you included as income in the Arizona column. A qualified state tuition program is a program that meets the requirements of I.R.C. § 529.

K. Other Adjustments

Other special adjustments may be necessary. Call one of the numbers listed on the quick and easy access to tax help and forms page if any of the following apply.

- You are a qualified defense contractor that elected to amortize under Arizona Revised Statutes section 43-1024.
- You sold or disposed of property that was held for the

production of income and your basis was computed under the Arizona Income Tax Act of 1954.

- You were an Arizona resident before December 31, 1975, and you are receiving IRA distributions from your IRA account to which you made contributions before December 31, 1975.
- You were an Arizona resident before December 31, 1975, and you are receiving distributions from your qualified self-employment retirement plan to which you made contributions before December 31, 1975.
- You deferred exploration expenses determined under Internal Revenue Code section 617 in a taxable year ending before January 1, 1990, and you have not previously taken a subtraction for those expenses.

Line D35 - Total Subtractions

Add lines D28 through D34. Enter the total here and onto the front of your return, line 20.

Different Last Names

If you filed an Arizona tax return within the past four years with a different last name, enter your prior last name(s) in part E.

Totaling Your Income

Line 13 - Federal Adjusted Gross Income

You must complete your federal return before completing your Arizona return. You must complete a 1998 federal return to determine your federal adjusted gross income even if not filing a federal return.

Arizona uses federal adjusted gross income as a starting point to determine Arizona taxable income. Enter your federal adjusted gross income from page 2, line B18.

Line 14 - Arizona Income

Enter your Arizona income from page 2, line B19, of your return.

Line 15 - Additions to Income

Enter the amount from page 2, line C23, of your return.

Line 16 - Medical Savings Account (MSA) Distributions

For information on Arizona's MSA provisions, see the department's MSA brochure, Pub 542.

You must add amounts received from an MSA here if any of the following apply.

1 - You Withdrew Funds From Your MSA For Other Than Qualified Expenses

If you had an MSA during the part of the year you were an Arizona resident, you must make an entry here if all of the following apply.

1. You withdrew money from your MSA during 1998, while either a resident or a nonresident.

2. You did not use the amount withdrawn to pay qualified medical expenses.
3. You did not have to include the withdrawal as income on your federal income tax return.

Enter the amount withdrawn.

If you had an MSA during the part of the year you were an Arizona nonresident, you must make an entry here if all of the following apply.

1. You had Arizona source income while an Arizona nonresident.
2. Your MSA qualified as an MSA under Arizona law.
3. If you were an employee, your high deductible health coverage was provided by your Arizona employer. If you were self employed, your high deductible health coverage was provided by your Arizona business.
4. You withdrew money from your MSA during 1998, while either a resident or a nonresident.
5. You did not use the amount withdrawn to pay qualified medical expenses.
6. You did not have to include the withdrawal as income on your federal income tax return.

Enter the amount withdrawn.

2 - Deceased Account Holder Where The Named Beneficiary is Not the Decedent's Surviving Spouse

You must make an entry here if all of the following apply.

1. The account holder died during the part of the year you were an Arizona resident.
2. The decedent's MSA qualified as an MSA under Arizona law.
3. You are the named beneficiary of the decedent's MSA.
4. You are not the decedent's surviving spouse.
5. You did not have to include the value of the MSA as income on your federal income tax return.

In this case, the MSA ceases to be an MSA. Enter the fair market value of the MSA as of the date of death, less the amount of MSA funds used within one year of the date of death, to pay the decedent's qualified medical expenses. You can reduce the fair market value by only those expenses paid from the MSA. If you pay additional medical expenses for the decedent from the MSA after you file, you may file an amended return to further reduce the fair market value of the MSA.

3 - Decedent's Final Return And No Named MSA Beneficiary

Make an entry here if all of the following apply.

1. The account holder died during the part of the year in which he or she was an Arizona resident.

2. There is no named MSA beneficiary.
3. This is the decedent's final return.
4. The value of the MSA did not have to be included on the decedent's final federal income tax return.

In this case, the MSA ceases to be an MSA. Enter the fair market value of the MSA as of the date of death. This rule applies in all cases in which there is no named beneficiary, even if the surviving spouse ultimately obtains the right to the MSA assets.

NOTE: *The following are not withdrawals. Do not enter any of the following:*

- Amounts from the MSA used to pay qualified medical expenses
- A qualified return of excess contributions
- A qualified rollover
- The fair market value of an MSA received by a surviving spouse who was the deceased account holder's named beneficiary

For more information about the above items, see the department's MSA brochure, Pub 542.

Line 18 - Deposits and Employer Contributions Into MSAs

Deposits Made Into Your MSA

If you have an MSA, you may be able to subtract deposits made into that MSA. Make an entry here if all of the following apply.

1. You have an MSA that qualifies as an MSA under Arizona law, but not federal law.
2. Either you or your employer made deposits into that MSA during the tax year.
3. You had to include the deposits in income on your federal income tax return.

Enter the amount of the MSA deposits that you had to include in your federal adjusted gross income.

Employer Contributions Made to Employee MSAs

If you are an employer, you may subtract the amount contributed to your employees' MSAs that are established under Arizona law. You can subtract these contributions only to the extent not deductible for federal income tax purposes. Enter these contributions here.

Line 19 - Elective Subtraction of Federal Retirement Contributions

This line applies only to individuals who were civilian employees of the United States Government during 1998. The Arizona Board of Tax Appeals has ruled that no refunds of Arizona income taxes paid on contributions to federal retirement plans are due for any years after 1990. The taxpayers have appealed that determination to the Arizona Tax Court, so the issue is not yet final.

Line 19 is provided to alert you to a remedy available to you under Arizona law. On your 1998 return, you have two options.

Option #1

You may subtract the amount of contributions to your retirement plan that was withheld from your wages paid by the federal government. Enter on line 19 the 1998 amount of such contributions **included in your Arizona income subject to tax**. If you choose this option and the courts ultimately decide that it is legal for the State of Arizona to tax your retirement contributions, you will owe additional tax and accrued interest. (Also, see *Protective Claim for Refund* below.)

Option #2

You may choose to ignore line 19. You may instead file the protective claim form. This form is in the front of this instruction booklet. Under this option you will pay tax on your contributions to the federal retirement plan. You will also protect your rights to a credit or refund of this tax if the courts ultimately decide that is appropriate. The state will pay interest in this event.

Protective Claim for Refund

You can find this form in the front of this instruction booklet. You can find this form at the bottom of the page titled *Notice to Current and Former Federal Civilian Employees*. If you were a civilian employee of the United States government at any time during the years 1994 through 1998, you should complete this claim form. Submitting this claim form will protect your rights to tax relief for the years you were so employed. If you choose **option #2** for 1998, you should also include 1998 in your claim. Claims for 1994 must be postmarked by April 15, 1999, to be valid. If you previously filed a protective claim for 1994 through 1997, only include 1998 on the claim form filed for 1998.

Please do not include the protective claim with your 1998 income tax return. Mail the claim form separately to the address indicated to ensure proper handling.

Line 20 - Subtractions From Income

Enter the amount from page 2, line D35, of your return.

Figuring Your Arizona Tax

Line 23 - Itemized or Standard Deductions

You must decide whether to take the standard deduction or to itemize your deductions. Your Arizona income tax will be less if you take the larger of your standard deduction or your itemized deduction.

Your Standard Deduction

Tax Tip: The standard deduction is not prorated.

If you take the standard deduction, check box 23S.

If your filing status is:	Your standard deduction is:
• Single	\$ 3,600
• Married filing separate	\$ 3,600
• Married filing joint	\$ 7,200
• Head of household	\$ 7,200

Your Itemized Deduction

You may itemize deductions on your Arizona return even if you do not itemize deductions on your federal return. The itemized deductions allowed for Arizona purposes are, with some exceptions, those itemized deductions that are allowable under the Internal Revenue Code.

A part-year resident who has no Arizona source income during the part of the year while an Arizona nonresident can deduct all of the following.

1. Those expenses incurred and paid during the part of the year while an Arizona resident.
2. Arizona source itemized deductions incurred and paid during the period of nonresidency.

Complete Arizona Form 140PY, Schedule A(PY) to determine your Arizona itemized deductions.

A part-year resident who also had Arizona source income during the part of the year while an Arizona nonresident can deduct all of the following.

1. Those expenses incurred and paid during the part of the year while an Arizona resident.
2. Arizona source itemized deductions incurred and paid during the period of nonresidency.
3. A portion of all other itemized deductions paid during the period of nonresidency.

Complete Arizona Form 140PY, Schedule A(PYN) to determine your Arizona itemized deductions. Form 140PY, Schedule A(PYN) is not included in your booklet. You may get this form by calling one of the help numbers listed on the quick and easy access to tax help and forms page.

To determine your Arizona itemized deductions, complete a federal Form 1040, Schedule A. If you telefile your federal Form 1040, you do not need to complete a federal Form 1040, Schedule A. Instead, complete your telefile worksheet for 1040 filers. Then complete the Arizona Form 140PY, Schedule A(PY) or A(PYN). If you itemize deductions, check box 23I.

NOTE: If you itemize, you must attach a copy of your federal Schedule A to your Arizona return. If you telefile your federal Form 1040, you must attach your telefile worksheet for 1040 filers.

For more information on itemized deductions allowed to a part-year Arizona resident, see Arizona Individual Income Tax Ruling ITR 94-10.

Line 24 - Personal Exemptions

Your personal exemption depends on your filing status. See Personal Exemption Chart. Then complete the Personal Exemption Worksheet.

NOTE For Active Duty Military Personnel Only: *If you were an active duty military member who either began or gave up Arizona residency during 1998, do not prorate the personal exemption. You are allowed a 100 percent deduction for the personal exemption (to include spouse).*

Personal Exemption Chart

If you checked filing status:	Personal Exemption before proration:
• Single (Box 7)	\$2,100
• Married filing joint return (Box 4) and claiming no dependents (Box 10)	\$4,200
• Married filing joint return (Box 4) and claiming at least one dependent (Box 10)	\$6,300
• Head of household and you are not married (Box 5)	\$4,200
• Head of household and you are a married person who qualifies to file as head of household (Box 5)	\$3,150 Or Complete Form 202 <i>Personal Exemption Allocation Election</i> .
• Married filing separately (Box 6) with neither spouse claiming any dependents (Box 10)	\$2,100 Or Complete Form 202 <i>Personal Exemption Allocation Election</i> .
• Married filing separately (Box 6) with one spouse claiming at least one dependent (Box 10)	\$3,150 Or Complete Form 202 <i>Personal Exemption Allocation Election</i> .

Personal Exemption Worksheet

Personal Exemption Worksheet

1. Amount from chart above. If you are an active duty military member who either began or gave up Arizona residency during 1998, skip lines 2 and 3 and enter this amount on Form 140PY, page 1, line 24. All other taxpayers complete lines 2 and 3.	\$
2. Enter your Arizona percentage from Form 140PY, page 2, line B20.	%
3. Multiply line 1 by the percent on line 2. Enter the result here and on Form 140PY, page 1, line 24.	\$

A married couple who does not claim any dependents may take one personal exemption of \$4,200 (prior to prorating). If the husband and wife file separate returns, either spouse may (prior to prorating) take the entire \$4,200 exemption, or the spouses may divide the \$4,200 (prior to prorating) between them. You and your spouse must complete Form 202 if either you or your spouse claim a personal exemption of more than \$2,100 (prior to prorating). If you and your spouse do not complete Form 202 you may (prior to prorating) take an exemption of only \$2,100 (one-half of the total \$4,200).

A married couple who claims at least one dependent may take one personal exemption of \$6,300 (prior to prorating). If the husband and wife file separate returns, either spouse may (prior to prorating) take the entire \$6,300 exemption, or the spouses may divide the \$6,300 between them. You and your spouse must complete Form 202 if either you or your spouse claim a personal exemption of more than \$3,150 (prior to prorating). If you and your spouse do not complete Form 202 you may (prior to prorating) take an exemption of only \$3,150 (one-half of the total \$6,300).

If you are a married person who qualifies to file as a head of household, you may take the entire \$6,300 (prior to prorating) personal exemption or you may divide the exemption with your spouse. You and your spouse must complete Form 202 if either you or your spouse claim a personal exemption of more than \$3,150 (prior to prorating). If you and your spouse do not complete Form 202 you may take an exemption of only \$3,150 (prior to prorating) (one-half of the total \$6,300).

The spouse who claims more than one-half of the total personal exemption (prior to prorating) must attach the original Form 202 to his or her return. The spouse who claims less than one-half of the total personal exemption (prior to prorating) must attach a copy of the completed Form 202 to his or her return.

Line 26 - Taxable Income

Subtract line 25 from line 22 and enter the result. Use this amount to calculate your tax using Tax Rate Table X or Y.

Line 27 - Tax Amount

Enter the tax from Tax Rate Table X or Y.

Line 28 - Tax From Recapture of Credits From Arizona Form 301

Enter the amount of tax due from recapture of the environmental technology facility credit and/or the recycling equipment credit from Form 301, Part II, line 22.

Line 29 - Subtotal of Tax

Add lines 27 and 28.

Line 30 - Family Income Tax Credit

You may take this credit if you meet the income threshold for your filing status.

- Complete steps 1, 2, and 3 to see if you qualify for this credit.
- If you qualify to take this credit, complete Worksheet II in step 4.

Step 1

Complete Worksheet I below.

Worksheet I	
1. Enter the amount from Form 140PY, page 1, line 22.	
2. Enter the amount Form 140PY, page 2, line D28.	
3. Add lines 1 and 2. Enter the result.	

Step 2

Look at the following tables. Find your filing status.

- Use Table I if married filing a joint return.
- Use Table II if head of household.
- Use Table III if single or married filing a separate return.

Step 3

- Look at the column (a) labeled "number of dependents" and find the number of dependents you are claiming.
- Find the income threshold amount in column (b) next to the number of dependents you are claiming.
- Compare that income threshold amount in column (b) with the income listed in Step 1 on Worksheet I, line 3.

If the amount entered in step 1 on Worksheet I, line 3 is equal to or less than the income threshold for the number of dependents you are claiming, you qualify to take this credit. To figure your credit, complete step 4.

Table I Married Filing a Joint Return	
Column (a)	Column (b)
Number of dependents	Income Threshold
• 0 or 1	\$20,000
• 2	\$23,600
• 3	\$27,300
• 4 or more	\$31,000

Table II Head of Household	
Column (a)	Column (b)
Number of dependents	Income Threshold
• 0 or 1	\$20,000
• 2	\$20,135
• 3	\$23,800
• 4	\$25,200
• 5 or more	\$26,575

Table III Single Or Married Filing Separately	
Column (a)	Column (b)
Number of dependents	Income Threshold
• 0 or more	\$10,000

Step 4

If you qualify to take the credit, complete this worksheet following the tables.

Worksheet II	
1. Enter the number of dependents you entered in box 10, page 1, Form 140PY.	
2. Number of personal exemptions. If you checked filing status 4, enter the number 2. If you checked filing status 5, 6, or 7, enter the number 1.	
3. Add lines 1 and 2. Enter the result.	
4. Multiply the amount on line 3 by \$40. Enter the result.	
5. If you checked filing status 4 or 5, enter \$240 here. If you checked filing status 6 or 7, enter \$120 here.	
6. Family income tax credit. Enter the lesser of line 4 or line 5. Also enter this onto Form 140PY, page 1, line 30.	
NOTE: The family income tax credit will only reduce your tax and cannot be refunded.	

Line 31 - Credits From Arizona Form 301

Complete line 31 if you can take any of the following credits.

1. Defense Contracting Credit. You may qualify for this credit if you are an Arizona Department of Commerce certified defense contractor who has qualified increases in employment. This tax credit also includes a provision for a property tax credit. Use Form 302 to figure this credit.

2. Enterprise Zone Credit. You may qualify for this credit if your business in an Arizona enterprise zone had net increases in qualified employment positions. Use Form 304 to figure this credit.

3. Environmental Technology Facility Credit. You may qualify for this credit if your business incurred expenses in constructing a qualified environmental technology manufacturing facility. Use Form 305 to figure this credit.

4. Military Reuse Zone Credit. You may qualify for this credit if you have qualifying net increases in full-time employment within a military reuse zone. Use Form 306 to figure this credit.

5. Recycling Equipment Credit. You may qualify for this credit if your business has installed recycling material equipment. Use Form 307 to figure this credit.

6. Credit for Taxes Paid to Another State or Country. You may qualify for this credit if you paid tax to Arizona and another state or country on the same income. Use Form 309 to figure this credit.

7. Solar Energy Credit. You may qualify for this credit if you installed a solar energy device in your residence located in Arizona. Use Form 310 to figure this credit.

8. Agricultural Water Conservation System Credit. You may qualify for this credit if you incurred expenses to purchase and install an agricultural water conservation system in Arizona. Use Form 312 to figure this credit.

9. Alternative Fuel Credit. You may qualify for this credit if you purchased or leased a new alternative fuel vehicle. You may also qualify for this credit if you converted your conventional vehicle to operate as an alternative fuel vehicle. You may qualify for this credit if you constructed or operated an alternative fuel refueling station. Use Form 313 to figure this credit.

10. Underground Storage Tanks Credit. You may qualify for this credit if you incurred expenses correcting a release of a regulated substance from an underground storage tank. To qualify for this credit, you must not have been liable or responsible for the corrective action as an owner or operator of the underground storage tank. Use Form 314 to figure this credit.

11. Pollution Control Credit. You may qualify for this credit if you purchased depreciable property used in a trade or business to reduce or prevent pollution. Use Form 315 to figure this credit.

12. Construction Materials Credit. You may qualify for this credit if you purchased construction materials for a building used in manufacturing, mining, or research and development. Your construction costs must have been more than five million dollars. Use Form 316 to figure this credit.

13. Credit for Solar Hot Water Heater Plumbing Stub Outs and Electric Vehicle Recharge Outlets. You may qualify for this credit if you install solar hot water heater plumbing stub outs or electric vehicle recharge outlets in houses or dwelling units you construct. The taxpayer that constructed the dwelling may also transfer the credit to a purchaser. Use Form 319 to figure this credit.

14. Credit for Employment of TANF Recipients. You may qualify for this credit if you employed TANF recipients during the taxable year. Use Form 320 to figure this credit.

15. Credit for Contributions to Charities That Provide Assistance to the Working Poor. You may qualify for this credit if you made contributions to certain charities that provide help to the working poor. Use Form 321 to figure this credit.

16. Credit for Fees Paid to Public Schools. You may qualify for this credit if you paid certain fees to public schools in Arizona. Use Form 322 to figure this credit.

17. Credit for Contributions to School Tuition Organizations. You may qualify for this credit if you made contributions to a school tuition organization that provides scholarships or grants to qualified schools. Use Form 323 to figure this credit.

Compute your credit on the appropriate form. Then complete Form 301 and enter the amount from Form 301, line 41. The credits on line 31 cannot reduce your tax below zero. These credits are not refundable credits.

Attach Arizona Form 301 along with any supporting documents to your return.

Line 32 - Credit Type

If you entered an amount on line 31, write the form number(s) of the credit(s) from Arizona Form 301, Part II.	
If you are claiming:	Write form number:
1. Defense Contracting Credit	302
2. Enterprise Zone Credit	304
3. Environmental Technology Facility Credit	305
4. Military Reuse Zone Credit	306
5. Recycling Equipment Credit	307
6. Credit for Taxes Paid to Another State or Country	309
7. Solar Energy Credit	310
8. Agricultural Water Conservation System Credit	312
9. Alternative Fuel Credit	313
10. Underground Storage Tanks Credit	314
11. Pollution Control Credit	315
12. Construction Materials Credit	316
13. Credit for Solar Hot Water Heater Plumbing Stub Outs and Electric Vehicle Recharge Outlets	319
14. Credit for Employment of TANF Recipients	320
15. Credit for Contributions to Charities That Provide Assistance to the Working Poor	321
16. Credit for Fees Paid to Public Schools	322
17. Credit for Contributions to School Tuition Organizations	323

Line 33 - Total Credit

Add lines 30 and 31. Enter the result.

Line 34 - Balance of Tax

Subtract line 33 from line 29, but do not enter an amount less than zero. If line 33 is more than line 29, enter zero.

Totaling Payments**Line 35 - Arizona Income Tax Withheld**

Enter the Arizona income tax withheld as shown on the Form(s) W-2 from your employer. Also enter the Arizona income tax withheld shown on your Form(s) 1099-R (distributions from pensions, annuities, etc.). Attach the Form(s) W-2 and 1099-R to the front of your return. Do not include income taxes withheld by any other state.

Line 36 - Arizona Estimated Tax Payments for 1998 and Amount Applied From 1997 Return

Use this line if you did one of the following:

1. Made estimated income tax payments to Arizona for 1998.
2. Applied any of your refund from your 1997 Arizona return to 1998 estimated taxes for Arizona.

Enter the total amount paid and/or applied to 1998 taxes.

Line 37 - Amount Paid With 1998 Extension Request (Form 204)

Use this line to report the payment you sent with your extension request.

Line 38 - Total Payments

Add lines 35 through 37. Enter the total.

Also, do the following if you computed your 1998 tax under Arizona's claim of right provisions.

1. Write "ARS § 43-1029" and the amount of the prior year tax reduction in the space to the left of your total payment amount.
2. Include the credit for the prior year tax reduction in the total entered on line 38.
3. Attach a schedule explaining the amounts repaid and the computation of the prior year tax reduction.

For more information on Arizona's claim of right provisions, see Arizona Department of Revenue Individual Income Tax Procedure ITP 95-1.

Figuring Your Overpayment or Tax Due**Line 39 - Tax Due**

If line 34 is more than line 38, you have tax due. Subtract line 38 from line 34. Skip lines 40, 41, and 42.

Line 40 - Overpayment

If line 38 is more than line 34, subtract line 34 from line 38. Complete lines 41 and 42.

Line 41 - Amount of Line 40 to Apply to 1999 Tax

If you want all or part of your refund applied to next year's Arizona estimated taxes, enter that amount.

Line 42 - Balance of Overpayment

Subtract line 41 from line 40 to determine your overpayment balance before voluntary gifts and any estimated payment penalty.

Making Voluntary Gifts

You can make voluntary gifts to each of the funds shown below. A gift will reduce your refund or increase the amount due with your return.

If you make a gift, you cannot change the amount of that gift later on an amended return.

Line 43 - Aid For Education Fund

Gifts go to the Arizona Assistance for Education Fund. The Arizona Board of Education will distribute money in this fund to school districts.

CAUTION: *If you make a contribution to this fund, you must contribute your entire refund. You may not give more than your entire refund.*

Line 44 - Arizona Wildlife Fund

You may give some or all of your refund to the Arizona Wildlife Fund. You may also give more than your entire refund.

Gifts go to the Arizona Game, Nongame, Fish and Endangered Species Fund. This fund helps protect and conserve over 1,000 nongame species.

Line 45 - Child Abuse Prevention Fund

You may give some or all of your refund to the Arizona Child Abuse Prevention Fund. You may also give more than your entire refund.

Gifts go to the Arizona Child Abuse Prevention Fund. This fund provides financial aid to community agencies for child abuse prevention programs.

Line 46 - Neighbors Helping Neighbors Fund

You may give some or all of your refund to the neighbors helping neighbors fund. You may also give more than your entire refund.

Gifts go to the Neighbors Helping Neighbors Fund. This fund provides eligible recipients with emergency aid in paying energy utility bills and conserving energy.

Line 47 - Special Olympics Fund

You may give some or all of your refund to the Special Olympics Fund. You may also give more than your entire refund.

Gifts go to the Special Olympics Fund. This fund helps provide programs of the Arizona Special Olympics.

Line 48 - Domestic Violence Shelter Fund

You may give some or all of your refund to the domestic violence shelter fund. You may also give more than your entire refund.

Gifts go to the Domestic Violence Shelter Fund. This fund provides financial aid to shelters for victims of domestic violence.

Line 49 - Political Gifts

Gifts go to one of the following political parties:

- Democratic
- Libertarian
- Reform
- Republican

You may give some or all of your refund to a political party. You may also give more than your entire refund.

Line 50 - Political Party

Check the box for the political party to which you wish to give. Select only one party. If you do not select a political party, the department will return the amount on line 49.

Line 51 - Estimated Payment Penalty and Interest

You must have made Arizona estimated income tax payments during 1998 if you meet either of the following.

1. You reasonably expected your Arizona gross income to exceed \$75,000 in 1998.
2. Your Arizona gross income in 1997 was greater than \$75,000.

In projecting current Arizona gross income, you must use ordinary business care and prudence.

If you were unable to project your 1998 Arizona gross income, you may request a waiver from the requirement to make estimated payments. The department may grant a waiver for one or more payment periods. You must request a waiver in writing. If requesting a waiver, attach your request to your return when you file. Your request must explain why you could not reasonably project your Arizona gross income for one or more payment periods during 1998.

The department may grant a waiver only if all of the following apply.

1. Your Arizona gross income in the preceding taxable year was less than \$75,000.
2. Using ordinary business care and prudence, you were unable to reasonably project your 1998 Arizona gross income.

You must attach Form 221 and your waiver request to your return.

If you report as a farmer or fisherman for federal purposes, you were not required to make estimated payments during 1998 if the following apply.

1. You are a calendar year filer. You file your Arizona return by March 1, 1999. You pay in full the amount stated on your return as payable.

2. You are a fiscal year filer. You file your Arizona return by the first day of the third month after the end of your fiscal year. You pay in full the amount stated on your return as payable.

If the above applies, check box 2 on line 52 and do not complete Form 221.

An individual who fails to make the required estimated payments is subject to penalty and interest on any estimated tax payment that is late or underpaid.

Complete and attach Form 221, *Underpayment of Estimated Tax by Individuals*, to determine if any penalty and interest are due. Enter total penalty and interest from Form 221.

Line 52 -

Box 1 - Check box 1 if any of the following applies to you.

1. You checked the box on line 1 of Form 221.
2. You completed the annualized income worksheet on Form 221.
3. You elected to be treated as a nonresident alien on your federal income tax return. You made three estimated payment installments. Your first installment equaled 50 percent of the total of all of your required installments.

Box 2 - If you are an individual who for federal purposes reports as a farmer or fisherman, check box 2.

Box 3 - If you completed and attached Form 221, check box 3.

Line 53 - MSA Withdrawal Penalty

You must pay a withdrawal penalty if you made an MSA withdrawal during 1998 and all of the following apply.

1. You used the amount withdrawn for purposes other than to pay for qualified medical expenses.
2. You made the withdrawal on a day other than the last business day of the year.
3. The withdrawal is not subject to the federal withdrawal penalty.

The penalty is equal to 10 percent of the withdrawal. The withdrawal penalty is not subject to abatement. You must remit this penalty with your income tax return filed for the year in which you made the withdrawal.

Multiply the amount of your withdrawal subject to penalty by 10 percent. Enter the result.

The following withdrawals are not subject to the penalty.

1. Any withdrawal subject to the federal withdrawal penalty.
2. Withdrawals made from your MSA on the last business day of the tax year.
3. Any withdrawal made by an account holder who is at least age 59 1/2 when he or she makes the withdrawal.

NOTE: The following are not withdrawals. Do not enter a penalty for any of the following.

- Amounts from the MSA used to pay qualified medical expenses
- A qualified return of excess contributions
- A qualified rollover
- The fair market value of an MSA received by a surviving spouse who was the deceased account holder's named beneficiary

For more information about the above items, see the department's MSA brochure, Pub 542.

Figuring Your Refund or Tax Due

Line 55 - Refund

Subtract line 54 from line 42. Enter your refund on line 55 and skip line 56.

If you owe money to any state agency and certain federal agencies, your refund may go to pay some of the debt. If so, the department will let you know by letter.

Tax Tip: If you change your address before you get your refund, let the department know. Write to: Refund Desk, Arizona Department of Revenue, 1600 W Monroe, Phoenix AZ 85007. Include your social security number in your letter.

Line 56 - Amount Owed

Add lines 39 and 54. Enter the amount you owe on line 56. Make your check payable to Arizona Department of Revenue. Write your social security number on the front of your check or money order. Attach your check or money order to the front of your return where shown.

The department cannot accept checks or money orders in foreign currency. You must make payment in U.S. dollars.

Sign Your Return

You must sign your return. If married filing a joint return, both you and your spouse must sign even if only one had income. The department cannot send a refund check without proper signatures on the return.

Instructions Before Mailing

- Be sure you enter your home telephone number in the space provided on the front of your return. If your daytime telephone number is not the same as your home number, also enter a daytime number.
- Check to make sure that your math is correct. A math error can cause delays in processing your return.
- Make sure your **name** is on the return. If you received your return in the mail, use the preprinted label. **If the label is not correct, do not use it.**

- If claiming **dependent** exemptions, write the number of dependents claimed on the **front** of the return. On page 2 of the return, also write each dependent's name, relationship, social security number, and the number of months that he or she lived in your home.
 - Check the **boxes** to make sure you filled in all required boxes.
 - Sign your return and have your spouse sign if filing jointly.
 - Attach **all** required documents.
1. Attach *Form(s) W-2* to the **front** of your return. Also attach *Form(s) 1099-R* to the front of the return if you had Arizona tax withheld from your pension or annuity.
 2. Write your social security number on the front of your check and attach your *check* to the **front** of the return.

The Department of Revenue may charge you \$25 for a check returned unpaid by your financial institution.

3. Attach *Form 301* and your own schedules to the back of the return.
4. If you are claiming a credit for taxes paid to another state or country, attach copies of the other state's or country's filed return.
5. If you requested a filing extension, attach a copy of the federal or state extension request to the front of your return.
6. If you have tax exempt interest income, be sure to attach a schedule listing the payors and the amount received from each payor.
7. If you itemize, be sure to attach Arizona Schedule A(PY), or (PYN), and a copy of the federal Schedule A. If you telefile your federal return, attach your telefile worksheet.

Filing Your Return

Before you mail your return, make a copy of your return.

Also make a copy of any schedules that you are sending in with your return. Keep the copies for your records. Be sure that you file the original and not a copy.

To mail your return, use the envelope that came in your booklet. If it is missing, send the return to: Arizona Department of Revenue, PO Box 29002, Phoenix AZ 85038-9002.

Make sure you put enough postage on the envelope.

The U.S. Post Office must postmark your return or extension request by midnight April 15. A postage meter postmark will not qualify as a timely postmark. *Only a postmark from the U.S. Post Office will qualify.*

How Long To Keep Your Return

Keep your records as long as they are important for any Arizona tax law. Keep all records that support your income and deductions for a tax year until the period of limitations expires for the return for that tax year. A period of limitations is the limited time after which no legal action can be brought. Usually, this is four years from the date the return was due or filed.

In some cases, the limitation period is longer than four years. The period is six years from when you file a return if you under report the income shown on that return by more than 25 percent. The department can bring an action at any time if a return is false or fraudulent, or you do not file a return.

Keep records that establish the basis of property for a period longer than four years. Also keep net operating loss records back to the date you incurred the loss. To find out more about what records you should keep, get federal Publication 552.

When To Expect Your Refund

Expect your refund in the mail within 8 weeks of the date you filed. If you have not received your refund by that time, contact one of the help numbers listed on the quick and easy access to tax help and forms page.